

Message Text

UNCLASSIFIED

PAGE 01 OECD P 13262 01 OF 02 302125Z

73

ACTION EUR-25

INFO OCT-01 EA-11 IO-14 ISO-00 AID-20 CEA-02 CIAE-00

COME-00 EB-11 FRB-02 INR-10 NEA-14 NSAE-00 RSC-01

OPIC-12 SP-03 TRSE-00 CIEP-02 LAB-06 SIL-01 SWF-02

OMB-01 STR-08 SS-20 NSC-07 PA-04 PRS-01 USIA-15 AGR-20

SCI-06 INT-08 FEA-02 DRC-01 /230 W

----- 091514

P R 302058Z MAY 74

FM USMISSION OECD PARIS

TO SECSTATE WASH DC PRIORITY 2855

INFO AMEMBASSY ANKARA

AMEMBASSY ATHENS

AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY CANBERRA

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY THE HAGUE

AMEMBASSY HELSINKI

AMEMBASSY LISBON

AMEMBASSY LONDON

AMEMBASSY LUXEMBOURG

AMEMBASSY MADRID

AMEMBASSY OSLO

AMEMBASSY OTTAWA

AMEMBASSY PARIS

AMEMBASSY REYKJAVIK

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

AMEMBASSY TOKYO

AMEMBASSY VIENNA

AMEMBASSY WELLINGTON

USMISSION EC BRUSSELS

USMISSION NATO

UNCLASSIFIED

UNCLASSIFIED

PAGE 02 OECD P 13262 01 OF 02 302125Z

USMISSION GENEVA

UNCLAS SECTION 01 OF 02 OECD PARIS 13262

E.O. 11652: N/A

TAGS: EGEN, OECD

SUBJECT: OECD MINISTERIAL COUNCIL MEETING MAY 29-30:
STEIN STATEMENT ON INFLATION AND EMPLOYMENT

1. FOLLOWING IS TEXT OF STATEMENT MADE BY CEA CHAIRMAN
HERBERT STEIN TO OECD MINISTERIAL COUNCIL MAY 29-30 ON
INFLATION AND EMPLOYMENT.

BEGIN TEXT: THE SECRETARY GENERAL PROPERLY EMPHASIZES
THE WORLDWIDE CHARACTER OF THE INFLATION, ITS UNUSUAL
INTENSITY AND THE PRIORITY OF THE NEED TO DEAL WITH IT.
HOWEVER, HE IS, IN OUR OPINION, TOO PESSIMISTIC ABOUT
THE PROBABILITY OF SOME REDUCTION OF THE RATE OF
INFLATION AND INSUFFICIENTLY INSISTENT ON THE FIRM USE
OF CONVENTIONAL FISCAL AND MONETARY POLICIES TO RESTRAIN
THE INFLATION.

IN THE UNITED STATES AT LEAST, AND TO SOME EXTENT
IN OTHER COUNTRIES, THE RECENT INFLATION HAS CONSISTED
OF TWO PARTS. ONE WAS THE EXCEPTIONALLY RAPID RISE OF
FOOD AND FUEL PRICES RESULTING FROM POOR WORLD CROPS ON
THE ONE HAND AND FROM RESTRICTION OF OIL PRODUCTION ON
THE OTHER HAND. THE OTHER PART WAS THE MORE MODERATE

BUT STILL SUBSTANTIAL RISE OF PRICES IN THE REST OF THE
ECONOMY REFLECTING GENERAL DEMAND CONDITIONS, UNIT LABOR
COSTS AND OTHER FACTORS. THESE TWO ELEMENTS INTERACT.
MOST IMPORTANT, THE BIG RISE OF FOOD AND FUEL PRICES
RAISES THE COST OF LIVING AND GENERATES PRESSURE FOR
HIGHER WAGE INCREASES, WHICH MAY IN TURN INTENSIFY THE
GENERAL RATE OF INFLATION EVEN AFTER THE FOOD AND FUEL
PRICES HAVE CEASED RISING SO FAST. HOWEVER, IN THE PAST
YEAR RAPID FOOD AND ENERGY PRICE INCREASES HAVE NOT BEEN
FULLY TRANSLATED INTO THE REST OF THE ECONOMY, AND IF
THE EXTRAORDINARY INCREASE IN THESE TWO SECTORS NOW
SUBSIDES, AS WE EXPECT, WE WILL BE LEFT WITH A SUB-
STANTIAL REDUCTION IN THE RATE OF INFLATION.

UNCLASSIFIED

UNCLASSIFIED

PAGE 03 OECD P 13262 01 OF 02 302125Z

IN THE UNITED STATES IN THE PAST YEAR RETAIL FOOD
PRICES ROSE 16.2 PERCENT, PRICES OF ENERGY DIRECTLY
PURCHASED BY CONSUMERS ROSE 31.3 PERCENT AND THE REST
OF THE CONSUMERS' PRICE INDEX ROSE 6.3 PERCENT. THIS
GAVE US A TOTAL INCREASE OF 10.2 PERCENT. ENDING THE

EXTRAORDINARY INCREASE OF FOOD AND ENERGY PRICES COULD
BRING OUR INFLATION RATE DOWN SUBSTANTIALLY, PERHAPS TO

THE NEIGHBORHOOD OF 7 PERCENT.

THE INCREASED SUPPLIES OF FOOD IN HAND AND IN PROSPECT HAVE ALREADY RESULTED IN A MARKED CHANGE IN THE BEHAVIOR OF FOOD PRICES AT THE FARM AND WHOLESALE LEVELS. IN THE SIX MONTHS THAT ENDED IN OCTOBER 1973 WHOLESALE PRICES OF FARM PRODUCTS AND PROCESSED FOODS AND FEEDS ROSE BY 14 PERCENT; IN THE SIX MONTHS ENDED IN APRIL THEY ROSE BY LESS THAN 1/2 OF 1 PERCENT AND IN MARCH AND APRIL THEY DECLINED. THIS WILL BE REFLECTED IN MUCH MORE SLOWLY RISING RETAIL PRICES IN THE MONTHS AHEAD. ON THE ENERGY SIDE THE DOMINANT FACT IS THE PRICE OF CRUDE OIL. NO ONE BELIEVES THAT THE WORLD PRICES OF CRUDE OIL WILL TRIPLE OR QUADRUPLE IN THE NEXT YEAR AS IT DID IN THE PAST YEAR. IN FACT THERE IS SOME EVIDENCE THAT THESE PRICES ARE DECLINING AND WE EXPECT THEM TO DECLINE FURTHER.

THESE SAME FORCES IN MARKETS FOR FOOD AND ENERGY THAT WE FEEL IN THE UNITED STATES WILL BE FELT IN THE

UNCLASSIFIED

NNN

UNCLASSIFIED

PAGE 01 OECD P 13262 02 OF 02 302128Z

73

ACTION EUR-25

INFO OCT-01 EA-11 IO-14 ISO-00 AID-20 CEA-02 CIAE-00

COME-00 EB-11 FRB-02 INR-10 NEA-14 NSAE-00 RSC-01

OPIC-12 SP-03 TRSE-00 CIEP-02 LAB-06 SIL-01 SWF-02

OMB-01 STR-08 SS-20 NSC-07 PA-04 PRS-01 USIA-15 AGR-20

SCI-06 INT-08 FEA-02 DRC-01 /230 W

----- 091541

P R 302058Z MAY 74

FM USMISSION OECD PARIS

TO SECSTATE WASH DC PRIORITY 2856

INFO AMEMBASSY ANKARA

AMEMBASSY ATHENS

AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY CANBERRA
AMEMBASSY COPENHAGEN
AMEMBASSY DUBLIN
AMEMBASSY THE HAGUE
AMEMBASSY HELSINKI
AMEMBASSY LISBON
AMEMBASSY LONDON
AMEMBASSY LUXEMBOURG
AMEMBASSY MADRID
AMEMBASSY OSLO
AMEMBASSY OTTAWA
AMEMBASSY PARIS
AMEMBASSY REYKJAVIK
AMEMBASSY ROME
AMEMBASSY STOCKHOLM
AMEMBASSY TOKYO
AMEMBASSY VIENNA
AMEMBASSY WELLINGTON
USMISSION EC BRUSSELS
USMISSION NATO
UNCLASSIFIED

UNCLASSIFIED

PAGE 02 OECD P 13262 02 OF 02 302128Z

USMISSION GENEVA

UNCLAS SECTION 02 OF 02 OECD PARIS 13262

OTHER OECD COUNTRIES AND SHOULD HELP TO SLOW DOWN THEIR INFLATION RATES, ALTHOUGH PERHAPS LESS THAN IN THE UNITED STATES. SO WE SHOULD NOT REGARD OURSELVES AS CONSIGNED TO THE HIGH INFLATION RATES RECENTLY EXPERIENCED. HOWEVER, EVEN IF WE ALLOW FOR THE ABATEMENT OF PRESSURES ON FOOD AND FUEL PRICES, THE REMAINING INFLATION RATE WILL BE TOO HIGH. MOREOVER, THE DANGER OF RENEWED ACCELERATION CANNOT BE DISREGARDED. THEREFORE, WHILE SOMEWHAT OPTIMISTIC ABOUT THE NEAR FUTURE OF INFLATION WE REMAIN CONCERNED AND DETERMINED ABOUT THE BASIC PROBLEM.

IN OUR VIEW, THE MAIN CONCLUSION IS THE NEED FOR FIRM, CONTINUED USE OF WHAT THE SECRETARY-GENERAL CALLS, IN PASSING, TRADITIONAL OR CONVENTIONAL MEASURES. PRESUMABLY THESE ARE MEASURES OF FISCAL AND MONETARY RESTRAINT. THERE IS SOME IMPLICATION THAT THESE MEASURES HAVE BEEN USED AND FOUND WANTING. THE FACT IS THAT THEY HAVE NOT BEEN USED FOR VERY LONG ANYWHERE. THE WORLDWIDE SKEPTICISM ABOUT THE FUTURE OF INFLATION IS LARGELY THE RESULT OF SKEPTICISM ABOUT THE WILLING-

NESS OF GOVERNMENTS TO CARRY OUT THESE TRADITIONAL POLICIES. A SIGN NOW OF DETERMINATION BY THE MEMBERS OF OECD TO DO SO WOULD BE A MAJOR CONTRIBUTION TO ARRESTING THE TIDE OF INFLATION AND INFLATION-FEAR.

THE SECRETARY-GENERAL CALLS ATTENTION TO UNUSUAL MEASURES GOVERNMENTS MIGHT WANT TO EMPLOY TEMPORARILY IN THE MONTHS AHEAD TO REDUCE THE INFLATION OF CONSUMERS PRICES MORE RAPIDLY. THESE INCLUDE "TEMPORARY REDUCTIONS IN INDIRECT TAXES," "SELECTIVE SUBSIDIES," OR "PARTICULARLY STRICT DIRECT CONTROLS IN CERTAIN OF THE MORE SENSITIVE PRICE AREAS." THERE IS LITTLE SCOPE FOR THESE MEASURES IN THE UNITED STATES, ALTHOUGH WE DO HOPE TO CONDUCT POLICIES WHICH WILL BRING ABOUT

UNCLASSIFIED

UNCLASSIFIED

PAGE 03 OECD P 13262 02 OF 02 302128Z

INCREASED SUPPLY AND VOLUNTARY PRICE RESTRAINTS IN SOME SECTORS. WE HAVE NO WISH TO DISSUADE OTHERS FROM DIRECT TAX, SUBSIDY OR CONTROL MEASURES INTENDED TO PREVENT INFLATION. HOWEVER, WE THINK IT EXTREMELY IMPORTANT THAT INTEREST IN THESE OTHER MEASURES SHOULD NOT DIVERT ATTENTION FROM FUNDAMENTAL POLICIES, EITHER IN THE STATEMENT OF OECD OR IN THE ACTION OF OUR GOVERNMENTS.

WE DO NOT BELIEVE THAT WE SHOULD TURN QUICKLY FROM THE URGENT NEED TO RESTRAIN INFLATION NOW TO THE POSSIBILITY THAT COMMODITY PRICES MAY FALL "TOO FAR." MANY BASIC COMMODITY PRICES HAVE SKYROCKETED AS SUPPLY COULD RESPOND ONLY SLOWLY TO BOOMING DEMAND. IF THESE PRICES SHOULD FALL NOW, IN RESPONSE TO SUPPLY INCREASES OR LESS INFLATIONARY EXPECTATIONS, THAT WOULD BE NATURAL AND HELPFUL. CONCERN WITH THE PROBLEMS OF THE LESS DEVELOPED PRIMARY-PRODUCING COUNTRIES SHOULD NOT BE REFLECTED IN POLICIES TO HOLD UP PRICES WHILE THE WORLD IS UNDER THE THREAT OF INFLATION.

RELUCTANCE TO RELY ON CLASSICAL ANTI-INFLATION MEASURES OFTEN REFLECTS CONTINUING ANXIETY ABOUT INADEQUATE GROWTH OF OUTPUT AND EMPLOYMENT. THIS WAS A MAJOR WORRY IN THE OECD AND ELSEWHERE EARLY IN 1974. HOWEVER, WE SHOULD NOW RECOGNIZE THAT THE RISK OF A

WORLDWIDE RECESSION HAS DIMINISHED, AND THERE IS LITTLE DANGER OF ANY GOVERNMENT PURSUING A POLICY THAT IS TOO RESTRICTIVE. THE SECRETARY-GENERAL'S STATEMENT IS PRUDENT IN NOT URGING ANY GOVERNMENT TO A MORE EXPANSIVE POLICY. WE WOULD WELCOME A STRONGER WARNING AGAINST EXCESSIVE EXPANSION AND MORE EXPLICIT ACCEPTANCE OF THE FACT THAT IF WE WANT TO SLOW DOWN THE INFLATION WE MUST NOT RUN TOO CLOSE TO THE LIMITS OF OUR ECONOMIC POTENTIAL.

WE BELIEVE THAT A STATEMENT BY THE COUNCIL OF

MINISTERS EXPRESSING OUR COMMON DETERMINATION TO FIGHT
INFLATION, ACKNOWLEDGING THE INTEREST OF EACH IN THE
SUCCESS OF OTHERS IN REDUCING INFLATION AND STRESSING
THE NEED FOR DISCIPLINE AND RESTRAINT IN FISCAL AND
MONETARY POLICY WOULD BE HELPFUL TO ALL. END TEXT.
TURNER
UNCLASSIFIED

UNCLASSIFIED

PAGE 04 OECD P 13262 02 OF 02 302128Z

UNCLASSIFIED

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: INFLATION, EMPLOYMENT, SPEECHES, MINISTERIAL MEETINGS
Control Number: n/a
Copy: SINGLE
Draft Date: 30 MAY 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974OECDP13262
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D740136-0908
From: OECD PARIS
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t1974057/aaaaafwl.tel
Line Count: 289
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 6
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: golinofr
Review Comment: n/a
Review Content Flags:
Review Date: 05 NOV 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <05 NOV 2002 by MorefiRH>; APPROVED <05-Nov-2002 by golinofr>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: OECD MINISTERIAL COUNCIL MEETING MAY 29-30: STEIN STATEMENT ON INFLATION AND EMPLOYMENT
TAGS: EGEN, OECD, CEA, (STEIN, HERBERT)
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005